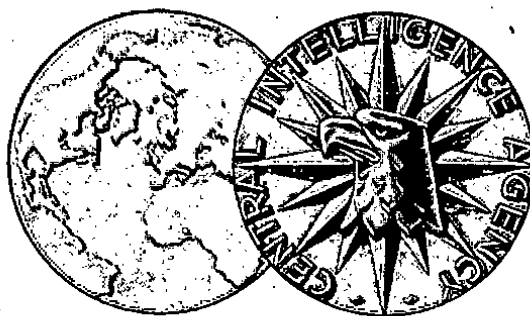


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WEEKLY SUMMARY

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H I G H L I G H T S

The Schuman proposal for pooling steel and coal resources continued to hold the attention of Western Europe this week following the recent British Labor Party statement expressing doubts about the value of the plan for Britain. Although the statement will have little decisive effect on Western Europe's generally favorable attitude toward the plan, it has caused widespread disappointment and even annoyance and will complicate any future negotiations for British participation (see page 2).

In the Far East, present French efforts to achieve a political settlement in Indochina hang in the balance in view of the possibility that Bao Dai's decision to visit France may develop into a "stay-away" strike to extract French concessions, as well as the likelihood that the 27 June inter-state conference between French and Indochinese representatives will contribute little toward an over-all solution of outstanding political differences (see page 10).

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W E S T E R N E U R O P E

Schuman Plan Although the recent British Labor Party statement rejecting the Schuman Plan has caused widespread disappointment and even annoyance among West European nations, there is little indication that it will have any decisive effect upon the generally favorable attitude of those nations toward the plan. The British Labor statement may even temporarily stimulate French and German efforts toward continental unity. Some revival of anglophobia in Italy and France may take place. The Socialist parties of the several countries, for reasons of party solidarity, have generally avoided any outright condemnation of the British Labor Party, but it is doubtful that they will follow the British lead. Only the Luxembourg Socialists have reportedly registered full concurrence with the UK Labor Party's statement.

Export Controls The attitudes of both Denmark and Sweden toward joint Western controls on exports to Eastern Europe are a major obstacle to the establishment of a common front on export controls. Denmark, while it has been participating in the Consultative Group, has from the beginning opposed the concept of controls and is now requesting a special reservation on tankers if their export is indispensable to the conclusion of Danish trade agreements with the Soviet orbit. This request may lead to similar reservations by other countries. Sweden's adherence to neutrality and the importance it attaches to its trade with Eastern Europe render Swedish participation in combined Western control of strategic commodities extremely doubtful. Although Sweden has indicated that it would take unilateral action to reduce or prohibit its substantial exports of such vital ball and roller bearings as are placed on the 1-A list, the UK has opposed the inclusion of these items on the list because it feels that unless Sweden joins in multilateral controls, such controls would not prevent bearings from reaching the Soviet orbit.

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UNITED KINGDOM

Foreign Trade As the UK continues its crucial campaign to balance its foreign trade, last month's record-breaking daily export rate, coupled with an attendant sharp rise in dollar income, probably enabled the UK to achieve an over-all balance of payments for May. The value of imports, reflecting the rising prices of raw materials, reached an all-time high, and the UK's dollar deficit, though reduced, continues. Exports and re-exports totaled 189 million pounds while imports exceeded 229 million, leaving a deficit of 40 million pounds which was probably cancelled by invisible earnings. Meanwhile, the UK increased its exports to dollar areas, with Canada purchasing \$10 million and the US \$8 million more than in April.

FRANCE

Economic Trends The gradual transition of the French economy from scarcity in virtually all products to an actual surplus in many lines may create temporary inconsistencies in the French attitude toward implementation of the ECA program. Marketing difficulties in many production lines have brought about a mild deflationary situation as contrasted to the pronounced inflationary pressure which had prevailed from the end of the war in 1945. The production groups most directly affected are becoming concerned with the prospects for their immediate economic welfare. For example, large sectors of labor, fearing unemployment, are more suspicious of ECA-sponsored projects designed to increase industrial productivity. Agricultural producers hesitate to enlarge their plantings, as encouraged by ECA representatives, until assured of stable foreign markets or a government subsidy to

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FRANCE

make up losses. Contrary to ECA recommendations, the government has made some concessions to industrial producers by: (1) tolerating some cartelization; (2) accelerating its program for restoring prewar tariff restrictions; and (3) agreeing to abandon some projected raises in taxes. Despite these concessions to domestic pressure groups, however, the French Government sympathizes with the broad objectives of the US for France and Western Europe and is quietly taking steps which may ultimately result in the adoption of measures substantially in agreement with the ECA program. Thus, though winking at cartels, it has been slowly preparing the country for its first anti-trust legislation; while temporarily sacrificing adequate tax revenues, it has pushed ahead with a comprehensive tax reform; and, though restoring some tariffs, it has been removing quota restrictions on trade, and has been working toward a resumption of multilateral payments.

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E A S T E R N E U R O P E

SOVIET UNION

Military Budget The USSR is apparently masking an increase of up to 30 percent over last year's military expenditures by carrying the military item in the 1950 budget at virtually the same number of rubles used in 1949. The 1950 planned revenue is about 5 billion below 1949's actual revenue, expenditures exceed 1949 by about 20 million rubles, and expenditures for military purposes exceed 1949 by a relatively insignificant 200 million rubles. The budget message, however, stresses the fact that the 1950 budget was made up with due consideration of the revalued ruble (appreciated by 32.5 percent) and of the reduction in wholesale prices of heavy industry goods and freight rates as of 1 January 1950. This means that the amount of physical resources to be devoted directly and indirectly to military purposes will be about 30 percent higher in 1950 than in 1949. Another place where increased military expenditures may be concealed is under the capital construction item, which was raised by more than one-fourth for 1950.

P O L A N D

Soviet Control The assumption of broader political powers by former Soviet Marshal Rokossovski, Poland's Minister of National Defense, will bring Poland under more direct control of the Kremlin. Rokossovski's recent appointment to the Polish Politburo increases his control over the Communist Party and the government

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POLAND

machinery and may have caused the present strained relations between Rokossovski and Jacob Berman, heretofore actual head of the Polish Communist Party. Polish resentment against the expansion of Rokossovski's powers will probably lead to Party resistance and eventually to purges of "nationalist" members of the Communist Party.

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N E A R E A S T - A F R I C A

PALESTINE

Peace Prospects Two recent developments pointedly underline the failure of the UN to achieve any progress toward a Palestine settlement: (1) the decision of the Trusteeship Council (TC) to return the statute for internationalization of Jerusalem to the General Assembly; and (2) Egypt's recall of its representative to the UN Palestine Conciliation Commission (PCC). The TC decision was made because of recognition of the impracticability of implementing the GA resolution. The action by the Egyptian Government is further indication that the Arab states, with the possible exception of Jordan, have no desire to negotiate a settlement with Israel at this time, and withdrawals of other Arab representatives to the PCC may follow. Meanwhile, border incidents in the Hebron area south of Jerusalem are disturbing Israeli-Jordan relations and delaying still further the reopening of peace negotiations between these two countries.

IRAN

US-UK Differences Although several recent differences in US and UK policy in Iran will probably be ironed out, they play into the hands of both the USSR and hostile elements within Iran which are trying to convince public opinion that rivalry exists between the US and UK over Iran. The British have given a demonstration of jet planes in Tehran, presumably to encourage Iran to buy such planes, and have attempted to sell oil-burning steam locomotives to Iranian railways despite recommendations against such purchases by US advisers to the Iranian Army and the Seven Year Plan

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IRAN

Organization. In addition, the UK's opposition to further revision of the Anglo-Iranian Oil Company concession agreement is contrary to the US view that the British should make some gesture, however small, in order to secure public support for Iranian ratification of the agreement. British reluctance to convert certain Iranian sterling holdings into dollars for the servicing of an outstanding dollar loan is also disturbing to US interest in encouraging development loans to Iran to further the Seven Year Plan for economic reconstruction.

INDIA

Nehru and Communism Prime Minister Nehru, during his recent visit to Indonesia, failed to justify fears that the emotional stress of the occasion might induce him to ignore the dangers of international Communism in Asia. Nehru appeared to recognize clearly that Communist tactics of violence were dangerous in neighboring states as well as in India itself. There is still no real reason to believe that Nehru will now align his country firmly against Communism as such or cooperate more closely with the West. Presumably still committed to the concept of Asia as a third force, Nehru might instead balance any possible offensive against the tactics of international Communism with a parallel attack on the tactics of the West. Nehru's stand against the Communist Party of India has never been such as to preclude future cooperation if the Communists would abandon destructive tactics and work under his leadership for the advancement of common domestic objectives. Nevertheless, it is apparent that for the time being his power will be used against strong-arm tactics by the Communists whether in India or elsewhere in Asia.

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F A R E A S T

CHINA

Communist Policy The Chinese Communists' latest major policy statement, a report delivered by Mao Tse-tung to the Central Committee of the Party on 6 June, reflects the Chinese Communists' confidence in the security of their position in the face of both serious economic problems and a recent growth of popular hostility to the regime. Although economic hardships have been the principal cause of popular discontent, Mao promised neither early Communist-achieved prosperity nor outside aid from any quarter. Instead, the report encouraged the more enterprising and productive elements of Chinese society, such as prosperous peasants and businessmen, by calling for changes favorable to their interests and by reaffirming the doctrine of "New Democracy," which claims that Chinese socialism is a distant, not an early, goal.

Mao's statement indicates that the Communists are keenly aware of their administrative weaknesses, which have impeded the smooth implementation of the Communist "take-over" program and have played no small role in the recent decline in the regime's popularity. There will probably not be a major Party purge, however, at this time. The screening of "careerist" elements within the party probably will not affect more than a small proportion of the present membership, and continued recruiting is likely to restore the losses. Mao's speech indicated that although the estimated 400,000 bandits still to be suppressed by the Communists are a nuisance of considerable magnitude in some areas, they offer no real threat to Communist control of the mainland. Mao referred to the "liberation" of Taiwan as "still a serious task," but did not commit the Communists to any deadline for its capture.

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INDOCHINA

Bao's Plans Emperor Bao Dai's decision to visit Paris may develop into a "stay-away" strike designed to induce the French to expand the "limited independence" granted Vietnam within the French Union. Bao Dai believes not only that the French are losing ground militarily and have abandoned all plans for a political solution of the Indochina dispute but that close French control of finances makes it impossible for any genuine Vietnamese Government to function or to develop popular support. The Emperor insists that the French are afraid to take any real steps toward resolving Indochinese problems, and feels that only trivial results can be expected from the forthcoming conference of delegates from the three Indochinese states and France.

Deeply dissatisfied with the French, Bao Dai is probably deliberately exaggerating the extent of his discouragement in an effort to bring US pressure to bear on France. Nevertheless, his protracted absence from Vietnam at this time would severely weaken chances for the development of a stable non-Communist regime in Indochina.

Conference Prospects The long-awaited interstate conference between French representatives and delegates of the three Indochinese states, which will begin at Pau in Southern France on 27 June, is not likely to contribute materially to a solution of the political problems in Indochina. The French will make every effort to restrict the agenda to a technical discussion of the extent of participation by the governments of Vietnam, Laos, and Cambodia in the administration of Indochina's currency, customs, immigration, and communications. The Indochinese representatives will have little success in using the conference to increase their national prerogatives in these

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INDOCHINA

fields and the French will probably keep major control over Vietnam's customs revenue. In addition to slight prospects for major French concessions on the technical aspects of the conference, no far-reaching decisions are likely regarding over-all Franco-Vietnamese relations, in view of: (1) the apparent acceptance of the French plan for the conference by Vietnamese Premier Tran Van Huu; (2) the tentative appointment of Albert Sarraut--an elderly former Minister of Colonies--as head of the French delegation; and (3) the failure to date of the French to assign to their delegation a representative of the French Foreign Ministry, which professes to advocate a more liberal Indochina policy than the status quo line taken by the Ministry of Overseas France.

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SECRET**BRAZILIAN ANTI-US SENTIMENT**

The growing anti-US sentiment in Brazil, which has become more marked in the press and among some high government officials and officers of the armed forces since the announcement of the US loan to Argentina and the publication of the Gillette subcommittee's report on coffee prices, may complicate the problem of maintaining the traditionally cooperative relations between the US and Brazil. Underlying this recently increased criticism of the US and its policies is the feeling of many Brazilians that the US is not granting them the special consideration they feel is warranted by Brazil's record of cooperation in World Wars I and II and since 1945. Many high Brazilian officials, both civilian and military, are convinced that Brazil's contribution as an ally of the US in World War II was so much greater than that of any other Latin American country that the US should favor Brazil above all other Latin American nations. These officials see the US loan to Argentina as a denial of Brazil's deserved preferential position. Similarly, Brazilian military leaders do not appreciate the present US Soviet-containment policy in Europe under which European countries, including former enemies of both the US and Brazil, receive US military equipment free while Brazil must pay high prices for it. These circumstances provide ammunition for those who favor striving in every way to reduce Brazil's peculiar dependence on the US and may lead to Brazilian reluctance to continue to cooperate fully with the US.

The Brazilians, for example, may become intransigent in their negotiations of a friendship, navigation, and commerce treaty with the US; or they may decide to continue "to study" US Steel's application to exploit the large manganese deposits in the State of Matto Grosso and thus delay the flow of manganese

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ore to the US. The growing anti-US feeling may also stimulate the nationalistic attitude reflected in the "Brazil for the Brazilians" slogan which, along with the pressure of politicians seeking the votes of nationalists and Communists for the important October elections, may force passage of a bill now before Congress that could curtail the flow of critical and strategic minerals to the US. Brazil will probably also make every effort to support the present high price of coffee through subsidies to the producers and through including larger amounts of coffee in barter agreements with European nations.

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